

CITY OF CEDAR HILLS

Financial Statements

June 30, 2006

CITY OF CEDAR HILLS

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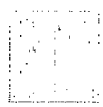
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor
and Members of the City Council
City of Cedar Hills

We have audited the financial statements of the governmental activities, business-type activities, and major funds, which collectively comprise the financial statements, of the City of Cedar Hills as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and major funds of the City at June 30, 2006, and the changes in the financial position and cash flows, where applicable, of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2006 on our consideration of the City of Cedar Hills' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The accompanying Management's Discussion and Analysis and the required supplementary information, Modified Approach – Asset Management System and the Budgetary Comparison Schedule, is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the City's financial statements. The individual fund statements and schedules described in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

November 14, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Cedar Hills, we offer readers of the City's financial statements this narrative, discussion, overview and analysis of the financial activities of the City of Cedar Hills for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- The assets of the City of Cedar Hills exceeded the liabilities as of the close of the most recent year by \$38,899,080 (net assets). Of this amount \$3,042,838 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- In the general fund, revenues exceeded expenditures by \$727,203, before inter-fund transfers.
- At the close of the fiscal year, the unreserved fund balance of the general fund totaled \$355,926 or 12% of total general fund revenues. State statutes allow a maximum fund balance of 18% of total general fund revenues.
- The City incurred \$2,325,000 of Revenue Bond debt for a Public Works Facility. In addition, the City restructured the financing for the golf course by re-issuing a \$6,250,000 General Obligation Bond. The City also refinanced the Pressurized Irrigation System by issuing a \$6,215,000 Revenue Bond. The net increase in total debt was \$2,140,478.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components:

1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the City, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the City changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*.) The governmental activities of the City include general government and administration, public safety, public works and library. The business-type activities of the City include Water and Sewer, Motor Pool, and the City Golf Course.

Please refer to the table of contents for the location of the government-wide financial statements.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: *governmental funds and proprietary funds*.

GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of government funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and capital projects funds, each of which are considered to be major funds.

The City adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with the budget.

Please refer to the table of contents for the location of the basic governmental fund financial statements.

PROPRIETARY FUNDS

The City maintains three proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, golf course, and motor pool funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer, golf course, and motor pool funds which are all considered to be major funds of the City.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City. Additional fund information for the governmental and the enterprise funds is presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Cedar Hills, assets exceed liabilities by \$38,899,080 (net assets) at the close of the most recent fiscal year.

The majority of the City's net assets (approximately 92%) represent resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$3,042,838 may be used to meet the government's ongoing obligations to citizens and creditors.

As of June 30, 2006, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**CITY OF CEDAR HILLS
NET ASSETS**

	Governmental Activities 2006	Business-Type Activities 2006	Total 2006	Total 2005
Current and other assets	\$8,911,211	\$1,493,667	\$10,404,878	\$7,200,057
Capital assets	\$10,300,126	\$36,494,407	\$46,794,533	\$43,739,424
<i>Total assets</i>	<i>\$19,211,337</i>	<i>\$37,988,074</i>	<i>\$57,199,411</i>	<i>\$50,939,481</i>
Long-term liabilities outstanding	\$3,022,000	\$12,377,241	\$15,399,241	\$13,088,629
Other liabilities	\$410,584	\$2,490,506	\$2,901,090	\$2,590,594
<i>Total liabilities</i>	<i>\$3,432,584</i>	<i>\$14,867,747</i>	<i>\$18,300,331</i>	<i>\$15,679,223</i>
Net Assets				
Invested in capital assets, net of related debt	\$9,485,874	\$20,920,874	\$30,406,748	\$27,381,190
Restricted	\$4,662,042	\$787,452	\$5,449,494	\$5,387,573
Unrestricted	\$1,630,837	\$1,412,001	\$3,042,838	\$2,491,495
<i>Total net assets</i>	<i>\$15,778,753</i>	<i>\$23,120,327</i>	<i>\$38,899,080</i>	<i>\$35,260,258</i>

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net assets by \$2,167,806.

The City of Cedar Hills has no significant new fees; however, a greater percentage of residents were charged for Pressurized Irrigation Usage. Revenue from charges for services increased due to the growing population. Golf course charges for services decreased by \$71,138.

Property tax collections decreased 11% from \$464,866 in 2005 to \$412,227 in 2006. The decrease is a result of the reduction in the certified tax rate.

Sales & Use Tax collections increased 41% from \$367,099 in 2005 to \$518,712 in 2006. One reason for the increase was due to the increase of the City's population.

CITY OF CEDAR HILLS
NET ASSETS

	Governmental	Business-Type		
	Activities	Activities	Total	Total
	2006	2006	2006	2005
Revenues				
Program revenues				
Charges for Services	\$ 1,145,642	\$ 2,317,793	\$ 3,463,436	\$ 3,248,620
Operating grants & contributions	\$ 195,054		\$ 195,054	\$ 150,057
Capital grants & contributions	\$ 1,422,611	\$ 2,037,900	\$ 3,460,511	\$ 2,058,493
General revenues				
Property taxes	\$ 525,316		\$ 525,316	\$ 464,866
Sales	\$ 576,664		\$ 576,664	\$ 367,099
Franchise	\$ 283,016		\$ 283,016	\$ 221,327
Interest income	\$ 242,378	\$ 60,807	\$ 303,185	\$ 163,005
Gain/(loss) on asset sales	\$ 2,889	\$ (365)	\$ 2,525	\$ 2,928
Miscellaneous	\$ 83,834		\$ 83,834	\$ 34,143
Transfers	\$ 28,106	\$ (28,106)	\$ 0	\$ 0
Total Revenues and Transfers	\$ 4,505,510	\$ 4,388,030	\$ 8,893,541	\$ 6,710,538
Expenses				
General government	\$ 1,666,698			\$ 1,454,474
Public safety	\$ 415,023			\$ 366,317
Parks and recreation	\$ 201,108			\$ 236,627
Interest on long-term debt	\$ 54,875			\$ 44,960
Sewer and water		\$ 1,684,080		\$ 1,365,810
Golf course		\$ 1,232,934		\$ 1,319,493
Total government expenses	\$ 2,337,704	\$ 2,917,014		\$ 4,787,681
Change in net assets	\$ 2,167,806	\$ 1,471,017	\$ 3,638,823	\$ 1,978,268
Net assets - beginning	\$ 13,610,947	\$ 21,649,311	\$ 35,260,258	\$ 11,632,679
Net assets - ending	\$ 15,778,753	\$ 23,120,327	\$ 38,899,081	\$ 13,610,947

LONG-TERM DEBT

The City of Cedar Hills has \$6,250,000 of general obligation debt as of June 30, 2006. The City has a lease revenue bond, an excise road tax bond, a utility revenue bond, an excise tax revenue bond and three capital leases.

The lease revenue bonds was obtained in 1999 in the amount of \$790,000 for the construction of the Public Safety Building which currently serves as the City Hall and the City's Fire Station. The current principal balance on this bond is \$595,000.

The general obligation bond was obtained in 2005 in the amount of \$6,250,000 as a refunding. The original debt was using to construct the City's golf course.

The excise tax road bond was obtained in 2000 in the amount of \$390,000 for the widening of the west end of Cedar Hills Drive and the construction of a roundabout at 4600 West and Cedar Hills Drive. This bond is secured by Class B&C Road revenues that the City receives from the state on a quarterly basis. The current principal balance of this bond is \$184,000.

The utility revenue bond was obtained in 2006 in the amount of \$6,215,000 as refinancing of a line of credit used to construct the pressurized irrigation system.

The excise tax revenue bond was obtained in 2006 in the amount of \$2,325,000 for the construction of a public works facility.

Additional information on the City's long-term debt can be found in the notes to the financial statements.

BUSINESS-TYPE ACTIVITIES

Business-Type Activities increased the City's net assets by \$1,471,016. For detail, see Statement of Revenues, Expenses, and Changes in Net Assets attached.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the year, the City of Cedar Hills' governmental fund reported combined ending fund balances of \$8,583,125. Approximately 19 percent of this amount, \$1,631,335, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay for roads \$447,728 and 2) to pay for capital projects \$6,504,062.

The general fund is the chief operating fund of the City. At the end of the current year, unreserved fund balance of the general fund was \$355,926. Total fund balance was \$803,654. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Unreserved fund balance represents approximately 31 percent of the total general fund expenditures.

PROPRIETARY FUNDS

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the respective proprietary funds are Water and Sewer \$2,056,688, Golf Course (\$644,687), and Motor Pool Fund \$11,726.

BUDGETARY HIGHLIGHTS

The difference between the original general fund budget and the final general fund amended budget was \$106,794. This may be summarized as follows:

- \$50,000 increase in the general government
- \$40,000 increase in solid waste
- \$4,400 increase in community services
- \$7,000 increase in transfer to motor pool
- \$4,894 increase in other uses

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The capital projects fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities and procuring equipment necessary for providing programs for the citizens of the City.

Major capital asset events during the current year included the following:

- \$72,722 for Canyon Rd Crossing
- \$176,596 for Cottonwood Drive

- \$56,878 for Canyon Heights Park
- \$50,290 for Bonneville Shoreline Trail

The City has elected to use the modified approach to account for its infrastructure assets such as roads and bridges. It is the City's policy to maintain their roads with an average remaining service life of 9 years or greater. The most recent condition assessment showed the average remaining service life to be 10 years. That information can be found in the required supplemental information following the notes to the financial statements.

CITY OF CEDAR HILLS
Capital Assets (Net of Depreciation)

	Governmental Activities 2006	Business-Type Activities 2006	Total 2006	Total 2005
Land	\$ 3,394,994	\$ 3,425,699	\$ 6,820,693	\$6,820,693
Buildings	\$ 4,232,614		\$ 4,232,614	\$2,952,663
Equipment	\$ 12,128		\$ 12,128	\$6,907
Golf Course Improvements		\$ 8,124,157	\$ 8,124,157	\$7,887,313
Infrastructure	\$ 2,849,969		\$ 2,849,969	\$2,451,415
Sewer improvements		\$ 9,366,130	\$ 9,366,130	\$7,104,158
Water improvements		\$ 15,918,985	\$15,918,985	\$13,274,333
Vehicles	\$ 271,553	\$ 30,528	\$ 302,081	\$116,856
	<u>\$ 10,761,258</u>	<u>\$ 36,865,499</u>	<u>\$47,626,757</u>	<u>\$40,614,338</u>

Additional information on the City of Cedar Hills' capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonded debt outstanding of \$15,569,000, and capital leases totaling \$310,595, for total long term debt outstanding of \$15,879,595. Refer to long-term debt notes for information on how the debt is secured.

**City of Cedar Hills
OUTSTANDING DEBT**

	Governmental Activities 2006	Business-Type Activities 2006	Total 2006	Total 2005
Revenue Bonds	\$3,104,000	\$6,215,000	\$9,319,000	\$7,281,000
General Obligation	\$0	\$6,250,000	\$6,250,000	
Notes Payable	\$0	\$0	\$0	\$200,245
Line of Credit	\$0	\$0	\$0	\$5,841,391
Capital Leases	\$0	\$310,595	\$310,595	\$416,481
Total	<u>\$3,104,000</u>	<u>\$12,775,595</u>	<u>\$15,879,595</u>	<u>\$13,739,117</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 12 percent of its total fair market value of taxable property in the City. The current general obligation debt limitation for the City is \$32,147,121. The City of Cedar Hills has \$6,250,000 in general obligation debt.

Additional information on the City's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The City of Cedar Hills will experience a decrease in new homes. Consequently, growth related revenues will be significantly less than previous years.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of The City of Cedar Hills' finances for anyone with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Cedar Hills, City Manager, 3925 West Cedar Hills Drive, Cedar Hills, Utah 84062.

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FINANCIAL STATEMENTS

The financial statements include integrated sets of financial statements as required by accounting principles generally accepted in the United States of America. The statements include:

- Government-wide financial statements

- Fund financial statements

 - Governmental funds

 - Proprietary (enterprise) funds

CITY OF CEDAR HILLS
Government-wide Statement of Net Assets
June 30, 2006
With Comparative Totals for June 30, 2005

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	2005 Total
ASSETS				
Cash and cash equivalents	\$ 957,442		\$ 957,442	\$ 819,191
Receivables (net of allowance)				
Accounts		\$ 169,967	169,967	143,953
Intergovernmental	201,735		201,735	123,817
Garbage billings	27,798		27,798	29,487
Other	97,476		97,476	104,555
Restricted cash and cash equivalents	7,626,760	1,323,700	8,950,460	5,979,054
Capital assets				
Land	3,394,994	3,379,399	6,774,393	6,774,393
Buildings	4,232,614		4,232,614	3,340,177
Equipment	283,681		283,681	148,048
Golf course improvements		8,124,157	8,124,157	8,124,156
Infrastructure	2,849,969		2,849,969	2,451,415
Sewer improvements		9,366,130	9,366,130	8,613,976
Water improvements		15,965,285	15,965,285	14,577,480
Vehicles		30,528	30,528	37,868
Accumulated depreciation	(552,145)	(3,801,784)	(4,353,929)	(3,507,433)
Water stock		3,119,511	3,119,511	3,119,511
Bond costs, net	91,013	311,181	402,194	59,833
Total assets	<u>\$ 19,211,337</u>	<u>\$ 37,988,074</u>	<u>\$ 57,199,411</u>	<u>\$ 50,939,481</u>
LIABILITIES				
Outstanding checks in excess of deposits		\$ 243,098	\$ 243,098	
Accounts payable and accrued expenses	\$ 262,716	67,747	330,463	\$ 292,728
Accrued salaries, wages, and benefits	35,055		35,055	31,304
Accrued interest payable	12,224	246,669	258,893	65,115
Other payables	18,589		18,589	18,589
Deposits		1,018,559	1,018,559	895,009
Development agreements payable		516,079	516,079	637,361
Noncurrent liabilities				
Due within one year	82,000	398,354	480,354	650,488
Due in more than one year	3,022,000	12,377,241	15,399,241	13,088,629
Total liabilities	<u>\$ 3,432,584</u>	<u>\$ 14,867,747</u>	<u>\$ 18,300,331</u>	<u>\$ 15,679,223</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 9,485,874	\$ 20,920,874	\$ 30,406,748	\$ 27,381,190
Reserved for				
Capital projects	4,214,314	787,452	5,001,766	4,576,025
Class C Roads	447,728		447,728	311,154
Debt service				500,394
Unreserved	1,630,837	1,412,001	3,042,838	2,491,495
Total net assets	<u>\$ 15,778,753</u>	<u>\$ 23,120,327</u>	<u>\$ 38,899,080</u>	<u>\$ 35,260,258</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
Government-wide Statement of Activities
For the Year Ended June 30, 2006
With Comparative Totals for
the Year Ended June 30, 2005

Program Activities	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 1,666,698	\$ 1,114,464	\$ 192,722	\$ 583,960
Public safety	415,023		2,332	84,651
Parks and recreation	201,108	31,178		754,000
Interest on long term debt	54,875			
Total governmental activities	<u>2,337,704</u>	<u>1,145,642</u>	<u>195,054</u>	<u>1,422,611</u>
Business-type activities				
Sewer and water	1,684,080	1,678,169		2,037,900
Golf course	1,232,934	639,625		
Total business-type activities	<u>2,917,014</u>	<u>2,317,794</u>		<u>2,037,900</u>
Total government	<u>\$ 5,254,718</u>	<u>\$ 3,463,436</u>	<u>\$ 195,054</u>	<u>\$ 3,460,511</u>
General revenues				
Taxes				
Ad valorem				
Sales				
Franchise				
Interest income				
Gain (loss) on sale/retirement of capital assets				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year				
Net assets at end of year				

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Net (Expenses) Revenues
and Changes in Net Assets

Governmental Activities	Business-type Activities	Total	2005 Total
\$ 224,448		\$ 224,448	\$ 111,451
(328,040)		(328,040)	(245,415)
584,070		584,070	949,103
(54,875)		(54,875)	(44,960)
<u>425,603</u>		<u>425,603</u>	<u>770,179</u>
	\$ 2,031,989	2,031,989	508,040
	(593,309)	(593,309)	(608,730)
	<u>1,438,680</u>	<u>1,438,680</u>	<u>(100,690)</u>
<u>425,603</u>	<u>1,438,680</u>	<u>1,864,283</u>	<u>669,489</u>
525,316		525,316	464,866
576,664		576,664	367,099
283,016		283,016	221,327
242,378	60,807	303,185	163,005
2,889	(365)	2,524	2,928
83,834		83,834	34,143
28,106	(28,106)		
<u>1,742,203</u>	<u>32,336</u>	<u>1,774,539</u>	<u>1,253,368</u>
2,167,806	1,471,016	3,638,822	1,922,857
<u>13,610,947</u>	<u>21,649,311</u>	<u>35,260,258</u>	<u>33,337,401</u>
<u>\$ 15,778,753</u>	<u>\$ 23,120,327</u>	<u>\$ 38,899,080</u>	<u>\$ 35,260,258</u>

**CITY OF CEDAR HILLS
GOVERNMENTAL FUNDS**

Balance Sheet

June 30, 2006

With Comparative Totals for June 30, 2005

	General	Capital Projects	Total Governmental Funds	2005 Total
ASSETS				
Cash and cash equivalents	\$ 135,411	\$ 809,692	\$ 945,103	\$ 796,190
Receivables (net of allowance)				
Deposits				62
Intergovernmental	201,735		201,735	123,817
Garbage billings	27,798		27,798	29,487
Other	97,476		97,476	104,493
Restricted cash and cash equivalents	447,728	7,179,032	7,626,760	4,684,996
Total assets	\$ 910,148	\$ 7,988,724	\$ 8,898,872	\$ 5,739,045
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expenses	\$ 52,850	\$ 209,253	262,103	115,784
Accrued salaries, wages, and benefits	35,055		35,055	31,304
Other payables	18,589		18,589	18,589
Total liabilities	106,494	209,253	315,747	165,677
Fund Balance				
Reserved for				
Capital projects		6,504,062	6,504,062	3,923,095
Class C Roads	447,728		447,728	311,154
Unreserved	355,926	1,275,409	1,631,335	1,339,119
Total fund balance	803,654	7,779,471	8,583,125	5,573,368
Total liabilities and fund balance	\$ 910,148	\$ 7,988,724	\$ 8,898,872	\$ 5,739,045

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
Reconciliation of the Governmental Funds Balance Sheet to the
Government-wide Statement of Net Assets
June 30, 2006

Total fund balance - total governmental funds	\$ 8,583,125
Amounts reported for governmental activities in the Government-wide Statement of Net Assets are different due to the following:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	10,300,126
Interest payable, but not yet due, on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the governmental funds balance sheet.	(12,224)
Long term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	
Due within one year	(82,000)
Due in more than one year	(3,022,000)
Assets, liabilities, and net assets reported in the internal service fund are not included in the governmental funds balance sheet.	<u>11,726</u>
Net assets of governmental activities	<u>\$ 15,778,753</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2006
With Comparative Totals for
the Year Ended June 30, 2005

	General	Capital Projects	Total Governmental Funds	2005 Total
Revenues				
Taxes	\$ 1,384,996		\$ 1,384,996	\$ 1,053,292
Licenses and permits	516,054		516,054	546,160
Impact fees		\$ 950,581	950,581	1,427,775
Intergovernmental	195,054		195,054	197,671
Charges for services	598,410		598,410	603,948
Other fees and services	31,178		31,178	34,371
Miscellaneous	83,834		83,834	34,143
Developer contributions				62,632
Interest income	21,923	220,455	242,378	132,555
Total revenues	<u>2,831,449</u>	<u>1,171,036</u>	<u>4,002,485</u>	<u>4,092,547</u>
Expenditures				
General government	1,274,996	541,412	1,816,408	1,176,336
Highways and streets	223,541	203,204	426,745	368,497
Public safety	415,023		415,023	366,317
Parks and recreation	137,333	234,399	371,732	928,366
Debt service				
Principal	40,000	35,000	75,000	72,000
Interest	13,353	42,408	55,761	45,756
Total expenditures	<u>2,104,246</u>	<u>1,056,423</u>	<u>3,160,669</u>	<u>2,957,272</u>
Excess of revenues over expenditures	<u>727,203</u>	<u>114,613</u>	<u>841,816</u>	<u>1,135,275</u>
Other financing sources (uses)				
Proceeds from debt		2,325,000	2,325,000	
Transfers in		332,883	332,883	175,674
Transfers out	(489,942)		(489,942)	(267,987)
Total other financing sources (uses)	<u>(489,942)</u>	<u>2,657,883</u>	<u>2,167,941</u>	<u>(92,313)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	237,261	2,772,496	3,009,757	1,042,962
Fund balance, beginning of year	<u>566,393</u>	<u>5,006,975</u>	<u>5,573,368</u>	<u>4,530,406</u>
Fund balance, end of year	<u>\$ 803,654</u>	<u>\$ 7,779,471</u>	<u>\$ 8,583,125</u>	<u>\$ 5,573,368</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 3,009,757
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Amounts reported for governmental activities in the Statement of Activities are different due to the following:

Governmental funds report capital outlay as expenditures. However, in the Government-wide Statement of Activities and Changes in Net Assets, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	818,961
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The net effect of various transactions involving capital assets (i.e. Sales, trade ins, and contributions) is to increase net assets.	472,030
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Depreciation expense on capital assets is reported in the Government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(98,244)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(2,158,683)
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Accrued interest expense on long-term debt is reported in the Government-wide Statement of Activities and Changes in Net Assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds.	886
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Internal service funds are used by management to charge the costs of vehicle fleet activities. The net activity of certain internal service funds is reported with governmental activities.	<u>123,099</u>
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Change in net assets of governmental activities	<u><u>\$ 2,167,806</u></u>
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SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
PROPRIETARY FUNDS
Statement of Net Assets
June 30, 2006
With Comparative Totals for June 30, 2005

	Business Type Activities - Enterprise Funds				2005 Total (Enterprise)
	Sewer and Water Fund	Golf course Fund	Totals	Motor Pool Fund	
ASSETS					
Current assets					
Cash and cash equivalents	\$ 235,026		\$ 235,026	\$ 12,339	\$ 371,028
Accounts receivable, net of allowance	169,967		169,967		143,953
Total current assets	404,993		404,993	12,339	514,981
Noncurrent assets					
Capital assets					
Land		\$ 3,379,399	3,379,399		3,379,399
Golf course improvements		8,124,157	8,124,157		8,124,156
Sewer improvements	9,366,130		9,366,130		8,613,976
Water improvements	15,965,285		15,965,285		14,577,480
Vehicles				302,081	
Less: accumulated depreciation	(3,117,177)	(684,607)	(3,801,784)	(61,470)	(3,057,767)
Total capital assets	22,214,238	10,818,949	33,033,187	240,611	31,637,244
Water stock	3,119,511		3,119,511		3,119,511
Restricted cash and cash equivalents	1,323,700		1,323,700		1,294,058
Bond costs, net	195,086	116,095	311,181		59,833
Total noncurrent assets	26,852,535	10,935,044	37,787,579		36,110,646
Total assets	\$ 27,257,528	\$ 10,935,044	\$ 38,192,572	\$ 252,950	\$ 36,625,627
LIABILITIES					
Current liabilities					
Outstanding checks in excess of deposits		\$ 478,124	\$ 478,124		\$ 348,027
Accounts payable and accrued expenses	\$ 67,110	637	67,747	\$ 613	176,944
Accrued interest payable	80,743	165,926	246,669		27,904
Deposits	1,018,559		1,018,559		895,009
Development agreements payable	516,079		516,079		637,361
Long-term debt current portion	210,000	188,354	398,354		571,802
Total current liabilities	1,892,491	833,041	2,725,532	613	2,657,047
Long-term liabilities					
Bonds payable	6,215,000	6,250,000	12,465,000		6,427,000
Notes payable		310,595	310,595		6,450,305
Less: current portion	(210,000)	(188,354)	(398,354)		(571,802)
Total long-term liabilities	6,005,000	6,372,241	12,377,241		12,305,503
Total liabilities	\$ 7,897,491	\$ 7,205,282	\$ 15,102,773	\$ 613	\$ 14,962,550
NET ASSETS					
Invested in capital assets, net of related debt	\$ 16,515,897	\$ 4,374,449	\$ 20,890,346	\$ 240,611	\$ 19,320,166
Reserved					
Capital assets	787,452		787,452		652,930
Debt service					500,394
Unreserved	2,056,688	(644,687)	1,412,001	11,726	1,165,486
Total net assets	\$ 19,360,037	\$ 3,729,762	23,089,799	\$ 252,337	21,638,976
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with the business type activities.					
			30,528		10,335
Net assets of business-type activities			\$ 23,120,327		\$ 21,649,311

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

**CITY OF CEDAR HILLS
PROPRIETARY FUNDS**
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006
With Comparative Totals for
the Year Ended June 30, 2005

	Business Type Activities - Enterprise Funds			2005 Total (Enterprise)
	Sewer and Water Fund	Golf course Fund	Totals	Motor Pool Fund
Operating revenues				
Charges for services	\$ 1,678,168	\$ 639,625	\$ 2,317,793	\$ 214,751
Total operating revenues	<u>1,678,168</u>	<u>639,625</u>	<u>2,317,793</u>	<u>214,751</u>
Operating expenses				
Salaries, wages, and employee benefits	336,294	311,481	647,775	549,064
Supplies and materials	247,268	229,165	476,433	492,193
Professional and technical	18,924		18,924	34,591
Vehicle maintenance				35,437
Depreciation and amortization	513,611	240,054	753,665	38,392
Other	299,506	72,160	371,666	272,376
Total operating expenses	<u>1,415,603</u>	<u>852,860</u>	<u>2,268,463</u>	<u>73,829</u>
Operating income (loss)	<u>262,565</u>	<u>(213,235)</u>	<u>49,330</u>	<u>140,922</u>
Non-operating income (expense)				
Interest income	54,318	6,489	60,807	30,450
Interest expense	(259,448)	(380,074)	(639,522)	(155)
Gain on sale of capital assets				2,525
Total non-operating income (expense)	<u>(205,130)</u>	<u>(373,585)</u>	<u>(578,715)</u>	<u>2,370</u>
Income (loss) before capital contributions and operating transfers	57,435	(586,820)	(529,385)	143,292
Capital contributions	2,037,900		2,037,900	520,472
Operating transfers				
Transfers in				60,000
Transfers out	(57,692)		(57,692)	(56,988)
Net operating transfers	<u>(57,692)</u>		<u>(57,692)</u>	<u>3,012</u>
Net income (loss)	2,037,643	(586,820)	1,450,823	143,292
Net assets at beginning of year	17,322,394	4,316,582		109,045
Net assets at end of year	<u>\$ 19,360,037</u>	<u>\$ 3,729,762</u>		<u>\$ 252,337</u>

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds are reported with business-type activities.

	20,193	11,817
Change in net assets of business-type activities	<u>\$ 1,471,016</u>	<u>\$ (55,411)</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
PROPRIETARY FUNDS
Statement of Cash Flows
For the Year Ended June 30, 2006
With Comparative Totals for June 30, 2005

	Business-Type Activities Enterprise Funds			Motor	2005
	Sewer and Water	Golf Course	Totals	Pool Fund	Total (Enterprise)
Cash flows from operating activities					
Cash received from					
Customers	\$ 1,775,043	\$ 640,286	\$ 2,415,329		\$ 2,182,742
Other				\$ 214,751	
Cash paid to/for					
Employees	(336,294)	(311,481)	(647,775)		(549,064)
Timpanogos Special Service District	(226,427)		(226,427)		(169,764)
Suppliers	(549,056)	(322,019)	(871,075)	(34,824)	(969,567)
Net cash provided by (used for) operating activities	<u>663,266</u>	<u>6,786</u>	<u>670,052</u>	<u>179,927</u>	<u>494,347</u>
Cash flows from noncapital financing activities					
Cash paid from other funds					
Cash paid to other funds	(57,692)		(57,692)		(56,988)
Net cash provided by (used for) noncapital financing activities	<u>(57,692)</u>	<u></u>	<u>(57,692)</u>	<u></u>	<u>(56,988)</u>
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(666,770)	(118,827)	(785,597)	(180,467)	(733,725)
Developer contributions	136,124		136,124		
Impact fees	699,137		699,137		983,191
Impact fees paid	(443,920)		(443,920)		(634,880)
Grants	31,200		31,200		
Proceeds from sales of capital assets				20,846	
Proceeds from the issuance of debt	6,215,000	6,250,000	12,465,000		
Principal payments on debt	(6,033,823)	(6,532,886)	(12,566,709)	(7,812)	(304,610)
Interest paid on debt	(202,806)	(242,053)	(444,859)	(155)	(573,635)
Net cash used for capital related financing activities	<u>(265,858)</u>	<u>(643,766)</u>	<u>(909,624)</u>	<u>(167,588)</u>	<u>(1,263,659)</u>
Cash flows from investing activities					
Interest income	54,318	6,489	60,807		30,450
Net cash provided by investing activities	<u>54,318</u>	<u>6,489</u>	<u>60,807</u>	<u></u>	<u>30,450</u>
Net increase (decrease) in cash	394,034	(630,491)	(236,457)	12,339	(735,850)
Cash and cash equivalents, at beginning of year	1,164,692	152,367	1,317,059		2,052,909
Cash and cash equivalents, at end of year	<u>\$ 1,558,726</u>	<u>\$ (478,124)</u>	<u>\$ 1,080,602</u>	<u>\$ 12,339</u>	<u>\$ 1,317,059</u>
Cash and cash equivalents	\$ 235,026		\$ 235,026	\$ 12,339	\$ 371,028
Cash and cash equivalents, restricted	1,323,700		1,323,700		1,294,058
Checks in excess of deposits		\$ (478,124)	(478,124)		(348,027)
Total	<u>\$ 1,558,726</u>	<u>\$ (478,124)</u>	<u>\$ 1,080,602</u>	<u>\$ 12,339</u>	<u>\$ 1,317,059</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
PROPRIETARY FUNDS
Statement of Cash Flows
For the Year Ended June 30, 2006
With Comparative Totals for June 30, 2005
(Continued)

	Business-Type Activities Enterprise Funds				2005
	Sewer and Water	Golf Course	Totals	Motor Pool Fund	Total (Enterprise)
Reconciliation to operating income					
Operating income (loss)	\$ 262,565	\$ (213,235)	\$ 49,330	\$ 140,922	\$ (47,562)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation and amortization	513,611	240,054	753,665	38,392	707,517
Changes in assets and liabilities					
Decrease (increase) in accounts receivable	(26,675)	661	(26,014)		(4,896)
Increase (decrease) in accounts payable	(88,503)	(20,694)	(109,197)	613	36,422
Increase (decrease) in refundable deposits	123,550		123,550		123,497
Increase (decrease) in developer payables	(121,282)		(121,282)		(320,631)
Net cash provided by (used for) operating activities	<u>\$ 663,266</u>	<u>\$ 6,786</u>	<u>\$ 670,052</u>	<u>\$ 179,927</u>	<u>\$ 494,347</u>

Supplemental information

The City received \$1,615,360 in capital asset contributions during the year ended June 30, 2006.

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

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NOTES TO FINANCIAL STATEMENTS

The notes to the financial statements are included to provide information that is essential to a user's understanding of the financial statements.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Cedar Hills ("The City") have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case GASB prevails. The more significant government accounting policies followed by the City are described below.

Reporting Entity

The City was incorporated under the laws of the State of Utah in October 31, 1977. The City operates under a Council-Mayor form of government and provides the following broad range of services to citizens: general administrative services, sanitation, public safety, highways and streets, recreation and parks, public improvements, planning, zoning, water and sewer utilities, and golf course services. The financial statements include all funds and activities that are financially accountable to the City as described in GASB Statement 39.

Blended Component Unit

The Municipal Building Authority was created by the City during fiscal year 1999 and is governed by the City's Mayor and Council. The Authority used the proceeds of its tax exempt bonds to finance the construction of general capital assets for the City. The bonds are secured by a lease agreement with the City and will be retired through lease payments from the City. The financial statements of the Municipal Building Authority are included in the accompanying financial statements as a capital projects fund, a blended component unit.

Principles Used in Determining Scope of Reporting Entity

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Cedar Hills. The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board. Based on the foregoing criteria, the financial statements of Timpanogos Special Service District is excluded from the accompanying financial statements because the entity is autonomous and has a self-elected board of directors responsible for its operations and the hiring of its management personnel. The City pays Timpanogos Special Service District for its share of services received. Timpanogos Special Service District receives payments from other nearby cities receiving these same services. The City collects impact fees on behalf of Timpanogos Special Service District and then remits them back to the District.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities.

Governmental funds are those funds through which most of the governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Capital Projects Fund

The Capital Projects Fund is used to account for funds received and expended for the acquisition or construction of capital facilities, improvements, and equipment (other than those financed by proprietary funds).

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

Sewer and Water Fund

The Sewer and Water Fund is used to account for the provision of sewer and water services to the residents of the City. Activities of the fund include administration, operations and maintenance of the sewer and water system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of long-term debt, and capital improvements. Costs are financed through charges to utility customers.

Golf Course Fund

The Golf Course Fund is used to account for the activity of the golf course and the accumulation of resources for, and the payment of long-term debt. Costs are financed through charges to golf course customers.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods or services in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, materials and supplies, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City also has an internal service fund which is accounted for like proprietary funds using the economic resources measurement focus.

Motor Pool Fund

The Motor Pool Fund is used to account for the operation and maintenance of vehicles provided by one department to other departments of the City on a cost measurement basis. The fund activities are reported on the proprietary fund statements, and based on their use, are appropriately allocated between governmental and business-type activities on the government-wide statements.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers amounts collected within 60 days after year end to be available. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Budgetary Control

Budgets are prepared for City funds on the cash basis while the modified accrual or accrual basis is used to account and prepare fund financial reports.

The City Council approves by resolution the total budget appropriation by fund. Any revisions that alter the total appropriations of any fund must be approved by the City Council. A public hearing is held anytime an increase in total appropriations is made. The budget was amended in fiscal year 2006. Unused appropriations for all of the annually budgeted funds lapse at the end of the year.

Cash and Cash Equivalents

City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents for reporting purposes in the Statement of Cash Flows for the Proprietary Funds.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts. Sick leave accrues to full-time permanent employees to specified maximums. Employees are entitled to a percentage of their sick leave balance and all accrued vacation leave upon termination.

Property Taxes

Property taxes attach an enforceable lien on property as of January 1. Taxes are levied and tax notices are sent on November 1. All unpaid taxes are due and become delinquent on November 30. Property tax revenues are recognized by the City when they are collected. Property taxes and fees on licensed motor vehicles are collected on a monthly basis in the month in which the individual motor vehicle license is renewed. Property taxes are billed and collected by Utah County on behalf of the City and remitted to the City monthly. At June 30, 2006, only delinquent taxes are uncollected. The amount of collectible delinquent taxes at June 30, 2006 is not considered significant.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at June 30, 2006 and revenues and expenses during the year then ended. The actual results could differ from those estimates.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for the proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment in the governmental funds.

Assets, having an original cost of \$10,000 or more are capitalized. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	50 years
Improvements other than buildings	30 – 50 years
Machinery and equipment	6 – 20 years
Infrastructure	50 years

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

The City has adopted an allowable alternative to reporting depreciation for its road network. Under this alternative method, referred to as the “modified approach,” the City must maintain an asset management system and demonstrate that its roads are being preserved at or above condition levels established by City policy. Infrastructure assets accounted for under the modified approach are not depreciated, and maintenance and preservation costs are expensed.

Transactions Between Funds

Legally authorized transfers are treated as inter-fund transfers and are included in the results of operations in both Governmental and Proprietary Funds.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City first utilizes restricted resources to finance qualifying activities.

Reclassifications

Comparative data for the prior year have been presented in the financial statements to provide an understanding of changes in the City's financial position and results of operations. Certain data for the prior year have been reclassified to conform with the June 30, 2006 presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

The City follows the requirements of the Utah Money Management Act (*Utah Code* Annotated 1953, Section 51, Chapter 7) and the rules of the Utah Money Management Council (the Council). Following are discussions of the City's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the City to be in a *qualified depository*, defined as any financial institution whose deposits are insured, up to a mandatory limit, by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 2 — DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)

Council. As of June 30, 2006, \$468,724 of the City's bank balances were insured and \$9,729,065 were uninsured and uncollateralized.

Investments. Custodial credit risk for investments is the risk that in the event of failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. As with Deposits, the City's policy for managing custodial credit risk of investments is to adhere to the Money Management Act.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investments securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rate "A" or higher by two nationally recognized statistical rating organizations defined in the Act.

The City is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

Investment Type	Fair Value	Maturity	Credit Quality
PTIF	\$ 7,296,020	67 days	Not rated
Externally Managed Investments			
First American Treasury Obligations	858,348	32 days	AAAm-g
US Bank Government Money Market	1,678,750	89 days	AAA
Total	<u>\$ 9,833,118</u>		

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 2 — DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The City manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the City's investments are noted above.

The City's cash and cash equivalents include \$8,950,460 of restricted and designated cash. The City has \$889,646 designated for capital improvements, \$447,728 restricted for C roads, \$5,001,767 restricted for impact fees, \$2,227,561 restricted for capital projects, and \$383,758 restricted for debt service.

NOTE 3 — WATER SHARES

At June 30, 2006, the City had water shares recorded at \$3,119,511. The water shares are stated at cost. Utah State law allows the trading of water shares but precludes the sale or disposition of water shares or rights acquired or otherwise controlled by the City.

NOTE 4 — ACCOUNTS RECEIVABLE

Accounts receivable of \$169,967 for all proprietary funds is entirely attributable to the Sewer and Water Fund. During the year, accounts determined to be worthless and uncollectible are written off to bad debt expense. The City had no bad debt expense in the current year.

NOTE 5 — INTERGOVERNMENTAL RECEIVABLES

The City has \$201,735 of intergovernmental receivables at June 30, 2006 in the General Fund resulting from \$129,779 due in sales tax revenue, \$42,219 due in Class C Road Funds, \$19,868 due in property taxes, and \$9,869 in telecom taxes.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 6 — CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	Primary Government		
	Beginning Balance	Increases	Decreases
			Ending Balance
Governmental activities:			
Capital assets not being depreciated:			
Land and improvements	\$ 3,394,994		\$ 3,394,994
Road network	2,451,415	\$ 398,554	2,849,969
Construction in progress		526,094	526,094
Total capital assets not being depreciated	<u>5,846,409</u>	<u>924,648</u>	<u>6,771,057</u>
Other capital assets:			
Buildings and improvements	3,340,177	366,343	3,706,520
Vehicles	135,920	149,939	\$ (14,306)
Equipment	12,128		12,128
Total other capital assets at historical cost	<u>3,488,225</u>	<u>516,282</u>	<u>(14,306)</u>
Less accumulated depreciation for:			
Buildings and improvements	(387,514)	(95,920)	(483,434)
Vehicles	(37,210)	(32,605)	8,346
Equipment	(5,221)	(2,021)	(7,242)
Total accumulated depreciation	<u>(429,945)</u>	<u>(130,546)</u>	<u>8,346</u>
Other capital assets, net	<u>3,058,280</u>	<u>385,736</u>	<u>(5,960)</u>
Governmental activities capital assets, net	<u>\$ 8,904,689</u>	<u>\$ 1,310,384</u>	<u>\$ (5,960)</u>
			<u>\$ 10,209,113</u>

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	Primary Government		
	Beginning Balance	Increases	Decreases
			Ending Balance
Business-type activities:			
Capital assets not being depreciated:			
Land and improvements	\$ 3,425,699		\$ 3,425,699
Total capital assets not being depreciated	3,425,699		3,425,699
Other capital assets:			
Buildings and improvements	31,269,312	\$ 2,139,960	33,409,272
Vehicles	37,868	30,528	\$ (37,868) 30,528
Total other capital assets at historical cost	31,307,180	2,170,488	(37,868) 33,439,800
Less accumulated depreciation for:			
Buildings and improvements	(3,057,766)	(744,018)	(3,801,784)
Vehicles	(19,722)	(5,785)	25,507
Total accumulated depreciation	(3,077,488)	(749,803)	25,507 (3,801,784)
Other capital assets, net	28,229,692	1,420,685	(12,361) 29,638,016
Business-type activities capital assets, net	\$ 31,655,391	\$ 1,420,685	\$ (12,361) \$ 33,063,715
Governmental activities depreciation expense:			
General government			\$ 70,470
Parks and recreation			60,076
Total governmental activities depreciation expense			\$ 130,546
Business-type activities depreciation expense:			
Water and sewer			\$ 506,695
Vehicle service			5,785
Golf course			237,323
Total business-type activities depreciation expense			\$ 749,803

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 7 — RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for these risks. Various policies are purchased through an insurance agency to cover liability, theft, damage, and other losses. A minimal deductible applies to these policies which the City pays in the event of any loss. There have been no significant reductions in the coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The City also has purchased a workers' compensation policy.

NOTE 8 — LONG-TERM DEBT

The legal general obligation debt limit for the City is \$32,147,121. The City had \$6,250,000 in general obligation debt at June 30, 2006.

Individual Terms and Payment Schedules:

General Obligation Bonds	<u>Governmental</u>	<u>Business-type</u>
\$6,250,000 General Obligation Refunding Bond due in annual installments on February 1 of \$65,000 to \$365,000. Interest at 3.75% to 4.50% is due in semi-annual payments on February 1 and August 1.	<u> </u>	<u>\$ 6,250,000</u>
 Revenue Bonds		
\$790,000 Lease Revenue Bonds due in annual installments on February 15 of \$30,000 to \$60,000. Interest at 5.25% to 5.40% is due in semi-annual payments on February 15 and August 15, secured by the building.	 \$ 595,000	
 \$390,000 Excise Road Tax Bonds due in annual installments on June 15 of \$30,000 to \$50,000. Interest at 5.90% to 6.05% due in semi-annual payments on June 15 and December 15.	 184,000	

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 8 — LONG-TERM DEBT (CONTINUED)

	<u>Governmental</u>	<u>Business-type</u>
\$6,215,000 Utility Revenue Bonds due in annual installments on March 1 of \$210,000 to \$385,000. Interest at 3.50% to 4.625% due in semi-annual payments on March 1 and September 1, secured by the pressurized irrigation system.		6,215,000
\$2,325,000 Excise Tax Revenue Bonds due in annual installments on July 1 of \$50,000 to \$150,000. Interest at 4.0% to 4.5% due in semi-annual payments on January 1 and July 1, secured by the public works building.	<u>2,325,000</u>	
Total Revenue Bonds	<u>3,104,000</u>	<u>6,215,000</u>

Capital Leases

\$40,240 Citicapital capital lease, due in monthly installments of \$1,233 including interest at 4.99%, beginning August 1, 2004, secured by the equipment.		28,738
\$325,335 Textron Financial capital lease, due in monthly installments of \$6,243 including interest at 5.69%, beginning August 15, 2003, secured by the equipment.		140,994
\$243,576 Citicapital capital lease, due in monthly installments of \$6,840 including interest at 3.69%, beginning August 1, 2003, secured by the equipment.		<u>140,863</u>
Total Capital Leases	<u>- 0 -</u>	<u>310,595</u>
Total debt	<u>\$ 3,104,000</u>	<u>\$ 12,775,595</u>

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 8 — LONG-TERM DEBT (CONTINUED)

Transactions for the year ended June 30, 2006 are summarized as follows:

	Balance July 1, 2005	Issues or Additions	Payments or Expenditures	Balance June 30, 2006	Due within one year
Governmental Activities:					
Revenue Bonds	\$ 854,000	\$ 2,325,000	\$ 75,000	\$ 3,104,000	\$ 82,000
Total governmental activities	854,000	2,325,000	75,000	3,104,000	82,000
Business-Type Activities:					
Revenue Bonds	6,427,000	6,215,000	6,427,000	6,215,000	210,000
General Obligation Bonds		6,250,000		6,250,000	65,000
Notes Payable	200,245		200,245		
Line of Credit	5,841,391		5,841,391		
Capital Leases	416,481		105,886	310,595	123,354
Total business-type activities	12,885,117	12,465,000	12,574,522	12,775,595	398,354
Total government	\$ 13,739,117	\$ 14,790,000	\$ 12,649,522	\$ 15,879,595	\$ 480,354

Revenue Bonds future debt service requirements:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 82,000	\$ 96,557	\$ 210,000	\$ 253,240
2008	135,000	136,274	210,000	256,900
2009	142,000	129,357	190,000	249,550
2010	145,000	122,100	200,000	242,426
2011	100,000	114,862	150,000	234,926
2012 - 2016	580,000	501,173	935,000	1,078,524
2017 - 2021	595,000	357,944	1,145,000	874,300
2022 - 2026	525,000	238,801	1,420,000	599,076
2027 - 2031	650,000	109,052	1,755,000	249,670
2032 - 2036	150,000	3,377		
Total	\$ 3,104,000	\$ 1,809,497	\$ 6,215,000	\$ 4,038,612

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 8 — LONG-TERM DEBT (CONTINUED)

General Obligation Bonds future debt service requirements:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007			\$ 65,000	\$ 320,791
2008			125,000	259,432
2009			130,000	254,746
2010			135,000	249,870
2011			140,000	244,808
2012 - 2016			775,000	1,139,238
2017 - 2021			945,000	972,000
2022 - 2026			1,150,000	766,000
2027 - 2031			1,415,000	501,280
2032 - 2036			1,370,000	157,498
Total	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 6,250,000</u>	<u>\$ 4,865,663</u>

During the fiscal year, the City refunded the Series 2001 MBA Bond of \$6,427,000 with Series 2005 General Obligation Refunding Bond (GO Bond) of \$6,250,000. The refunding extends the maturity date from February 2008 to February 2035. The additional cash flows required to service the GO Bond are \$4,600,000. The economic loss resulting from the refunding transaction, calculated on a present value basis is \$53,000.

The City entered into a capital lease agreement with Citicapital during July 2004 to purchase golf carts. The City financed the purchase over fifty-five months at a stated and effective rate of 4.99% interest. Monthly payments of \$1,233 are required August through January of each year through 2009 with a lump sum payment of \$9,000 due February 1, 2009. The lease is secured by the golf carts. The golf carts are recorded at \$40,240 with accumulated amortization of \$11,018.

The City entered into a capital lease agreement with Citicapital during July 2003 to purchase golf carts. The City financed the purchase over fifty-five months at a stated and effective rate of 3.69% interest. Monthly payments of \$6,840 are required August through January of each year through 2008 with a lump sum payment of \$64,800 due February 1, 2008. The lease is secured by the golf carts. The golf carts are recorded at \$243,576 with accumulated amortization of \$101,490.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 8 — LONG-TERM DEBT (CONTINUED)

The City entered into a capital lease agreement with Textron Financial Corporation during July 2003 to purchase maintenance equipment for the golf course. The City financed the purchase over sixty months at a stated rate of 5.69% and an effective rate of 5.84% interest. Monthly payments \$6,243 are required through July 2008. The lease is secured by the equipment. The maintenance equipment is recorded at \$325,335 with accumulated amortization of \$135,556.

Capital Leases future debt service requirements:

Year Ending June 30,	
2007	\$ 123,354
2008	188,154
2009	<u>16,396</u>
Total minimum lease payments	327,904
Amount representing interest	<u>(16,999)</u>
Present value of minimum lease payments	310,905
Amount due within one year	<u>(123,354)</u>
Amount due after one year	<u><u>\$ 187,551</u></u>

NOTE 9 — CONSTRUCTION COMMITMENT

In June 2006, the City issued bonds to construct a public works building. The estimated completion date of the building is January 2007.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 10 – NET ASSETS

Net assets at June 30, 2006 consisted of the following:

	Governmental	Business-type
Invested in capital assets, net of related debt		
Net capital assets	\$ 10,300,126	\$ 33,374,897
Less outstanding debt issued	(814,252)	(12,454,023)
Invested in capital assets, net of related debt	<u>\$ 9,485,874</u>	<u>\$ 20,920,874</u>
Restricted net assets:		
Restricted for capital projects	\$ 6,271,598	\$ 957,729
Less outstanding debt issued	(2,057,284)	(170,277)
Restricted for capital projects, net of related debt	<u>4,214,314</u>	<u>787,452</u>
Restricted for class c roads	<u>447,728</u>	
Restricted for debt service	232,464	151,295
Less outstanding debt issued	(232,464)	(151,295)
Restricted for debt service, net of related debt	<u>- 0 -</u>	<u>- 0 -</u>
Total restricted net assets	<u>\$ 4,662,042</u>	<u>\$ 787,452</u>
Unrestricted net assets	<u>\$ 1,630,837</u>	<u>\$ 1,412,001</u>
Total net assets	<u>\$ 15,778,753</u>	<u>\$ 23,120,327</u>

NOTE 11 – RETIREMENT PLANS

The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (System). The System provides retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The System is established and governed by the respective sections of Chapter 49 of the *Utah Code* Annotated 1958 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the System, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement System, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 11 – RETIREMENT PLANS (CONTINUED)

The City is required to contribute 11.09% of eligible employees' earnings for the fiscal year to the noncontributory system. The contribution rates are actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City's contributions to the Noncontributory System for the years ending June 30, 2006, 2005, and 2004 were \$60,158, \$54,072, and \$44,049, respectively. The contributions were equal to the required contributions for each year.

NOTE 12 – DEFERRED COMPENSATION PLAN

The City of Cedar Hills offers its employees a deferred compensation plan created in accordance with *Internal Revenue Code* Section 457 and a 401(k) plan. The plans, available to all employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of the participants or their beneficiaries by Utah Retirement Systems. No contributions were made to the 457 plan during the fiscal year. For the years ended June 30, 2006, 2005, and 2004 the employees contributed \$1,950, \$1,250, and \$350, respectively to the 401(k) plan.

NOTE 13 – CONTINGENT LIABILITY

During fiscal year 2006 there were no asserted claims against the City. However, there may be potential unasserted claims in the future.

NOTE 14 – LESSEE LEASING ARRANGEMENTS

On June 10, 1997, the City entered into an agreement with Central Utah Water Conservancy District to lease 710 acre feet of municipal and industrial project water. The City received a 100 acre foot allotment during August 2002, August 2003, and two allotments in September 2003, for a total of 400 acre feet. The total cost of the water is \$2,620,795, financed at 3% interest, payable in 45 annual installments. The annual installment payment is determined at the current price per acre foot times the number allotted. The City is required to begin payment for all 710 acre feet by 2008.

The City entered into three agreements with GE Capital Modular Space during March 2003, July 2003, and November 2003 to lease a modular clubhouse and equipment. The March and November 2003 leases are on a month-to-month basis and require monthly payments of \$170 and \$180, respectively. The July 2003 lease requires monthly payments of \$1,751 for 60 months.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2006

NOTE 14 – LESSEE LEASING ARRANGEMENTS (CONTINUED)

On June 1, 2003, the City entered into an agreement with Bank of the West to lease a cart barn and events tent. The lease agreement requires monthly payments of \$3,854 for 72 months.

On February 28, 2005, the City entered into an agreement with Revco Leasing to lease a copy machine. The lease agreement requires monthly payments of \$488 for 39 months.

The following is a schedule by year of future minimum lease payments required under operating lease agreements. All, except those noted above, have initial or remaining terms in excess of one year as of June 30, 2006:

Year Ended	
June 30:	
2007	\$ 131,792
2008	131,304
2009	98,213
2010	58,247
2011	58,247
2012 - 2016	291,235
2017 - 2021	291,235
2022 - 2026	291,235
2027 - 2031	291,235
2032 - 2036	291,235
2037 - 2041	291,235
2042 - 2046	291,235
2047 - 2051	58,218
Total	<u>\$ 2,574,666</u>

NOTE 15 – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

	Transfer In	Transfer Out
General fund		\$ 332,883
Capital projects fund	\$ 332,883	
Total	<u>\$ 332,883</u>	<u>\$ 332,883</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the accounting principles generally accepted in the United States of America, but are not considered a part of the financial statements. Such information includes:

Modified Approach – Asset Management System Reporting – Road Network

Budgetary Comparison Schedules – General Fund

CITY OF CEDAR HILLS
Required Supplementary Information
Modified Approach – Asset Management System

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the City has adopted an alternative method for reporting costs associated with certain infrastructure assets. Under this alternative method, referred to as the "modified approach," infrastructure assets are not depreciated, and maintenance and preservation costs are expensed. The City capitalizes costs related to new construction, major replacements, and improvements that increase the capacity and/or efficiency of infrastructure assets reported under the modified approach.

In order to utilize the modified approach, the City is required to:

Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.

Perform and document replicable condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale.

Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the City.

Document whether the infrastructure assets are being preserved approximately at, or above the condition level established by the City.

Road System

The condition of the City's 12.43 miles of road pavement is measured using the American Association of State and Highway and Transportation Officials (AASHTO) pavement management system, which is based on a weighted average of seven distress factors found in pavement surfaces. The pavement management system uses a measurement scale that is based on a condition index ranging from zero to 20 years remaining service life for pavement. The condition index is used to classify roads in the following remaining service life categories: 19 to 20 years, 13 to 18 years, 10 to 12 years, 7 to 9 years, and 0 to 6 years. It's the City's policy to maintain the roads with an average remaining service life of 9 years or greater. The initial condition assessment was performed in fiscal year 2004. The City's score based on the initial condition assessment was an average remaining service life of 9.96 years. Condition assessments are performed every three years.

This schedule only presents the information for fiscal years 2004, 2005, and 2006. Accounting standards generally accepted in the United States of America require reporting the last three complete condition assessments and needed-to-actual information for five years. However, the City implemented these new standards in fiscal year 2004, and did not collect the information for the prior years. The City will continue to collect and retain this information to facilitate, over a period of five years, the reporting of the required information.

CITY OF CEDAR HILLS
Required Supplementary Information
Subjective Condition Rating
Road Network
For the Year Ended June 30, 2006

Subjective Condition Rating of Road Network
Percentage of Network

0 to 6	22.53%
7 to 9	41.62%
10 to 12	22.08%
13 to 18	4.35%
19 to 21	9.42%
Total	<u>100.00%</u>

Average remaining service life	9.96
--------------------------------	------

Comparison of Needed-to-Actual
Road Network
Maintenance/Preservation

	2006	2005	2004
Needed	\$ 109,867	\$ 72,436	\$ 26,531
Actual	\$ 157,966	\$ 113,634	\$ 95,301

CITY OF CEDAR HILLS
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues (inflows)				
Taxes	\$ 1,214,200	\$ 1,214,200	\$ 1,384,996	\$ 170,796
License and permits	469,500	469,500	516,054	46,554
Intergovernmental	201,400	201,400	195,054	(6,346)
Charges for services	536,500	536,500	598,410	61,910
Other fees and services	16,000	16,000	31,178	15,178
Miscellaneous	68,900	68,900	83,834	14,934
Transfers in	15,000	15,000		(15,000)
Interest income	26,000	26,000	21,923	(4,077)
Total revenues	<u>2,547,500</u>	<u>2,547,500</u>	<u>2,831,449</u>	<u>283,949</u>
Expenditures (outflows)				
General government	1,441,616	1,536,116	1,498,537	37,579
Public safety	424,482	424,482	415,023	9,459
Parks and recreation	145,560	149,954	137,333	12,621
Debt service	53,400	53,800	53,353	447
Transfers out	482,442	489,942	489,942	
Total expenditures	<u>2,547,500</u>	<u>2,654,294</u>	<u>2,594,188</u>	<u>60,106</u>
Excess (deficiency) of revenues over expenditures		(106,794)	237,261	<u>\$ 344,055</u>
Fund balance, beginning of year	<u>566,393</u>	<u>566,393</u>	<u>566,393</u>	
Fund balance, end of year	<u>\$ 566,393</u>	<u>\$ 459,599</u>	<u>\$ 803,654</u>	

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OTHER SUPPLEMENTARY INFORMATION

Other supplementary information includes financial statements and schedules not required by the accounting principles generally accepted in the United States of America, nor a part of the financial statements, but are presented for additional analysis.

Such statements and schedules include:

Individual Fund Financial Statements and Schedules

General Fund

Capital Projects Fund

Proprietary Funds

Additional Schedules

Schedule of Audit Findings

General Fund Property Tax Levies and Collections

Additional Auditors' Reports

Report on Internal Control over Financial Reporting and on Compliance
And Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Utah State Compliance Report Based on the Requirements,
Special Tests, and Provisions Required by the State of
Utah's Legal Compliance Guide.

GENERAL FUND

The general fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds.

CITY OF CEDAR HILLS
GENERAL FUND
Balance Sheet
June 30, 2006
With Comparative Totals for June 30, 2005

ASSETS

	2006	2005
Cash and cash equivalents, unrestricted	\$ 135,411	\$ 99,390
Cash and cash equivalents, restricted	447,728	311,154
Deposits		62
Receivables		
Intergovernmental	201,735	123,817
Garbage billings	27,798	29,487
Other receivables	97,476	104,493
Total assets	<u>\$ 910,148</u>	<u>\$ 668,403</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 52,850	\$ 52,117
Accrued salaries and benefits	35,055	31,304
Other payables	18,589	18,589
Total liabilities	<u>106,494</u>	<u>102,010</u>

Fund Balance

Reserved		
Restricted - Class C Road	447,728	311,154
Unreserved	355,926	255,239
Total fund balance	<u>803,654</u>	<u>566,393</u>
Total liabilities and fund balance	<u>\$ 910,148</u>	<u>\$ 668,403</u>

CITY OF CEDAR HILLS
GENERAL FUND
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2006
With Comparative Totals for
the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2005 Actual</u>
Revenues				
Taxes				
Property taxes	\$ 448,200	\$ 476,347	\$ 28,147	\$ 416,703
Delinquent taxes	73,000	48,969	(24,031)	48,163
Sales taxes	439,000	576,664	137,664	367,099
Franchise taxes	210,000	221,679	11,679	221,327
Telecom taxes	44,000	61,337	17,337	
Total	<u>1,214,200</u>	<u>1,384,996</u>	<u>170,796</u>	<u>1,053,292</u>
Licenses and permits				
Building permits	450,000	478,567	28,567	527,828
Other licenses and permits	19,500	37,487	17,987	18,332
Total	<u>469,500</u>	<u>516,054</u>	<u>46,554</u>	<u>546,160</u>
Intergovernmental revenue				
Grant income				47,614
Road fund allotments	200,000	192,722	(7,278)	150,057
Liquor fund allotments	1,400	2,332	932	
Total	<u>201,400</u>	<u>195,054</u>	<u>(6,346)</u>	<u>197,671</u>
Fees				
Engineering inspection fees	50,000	53,075	3,075	75,849
Penalty fees	6,000	8,413	2,413	19,070
Application and processing fees	1,000	3,276	2,276	8,980
Plan check fees	210,000	223,070	13,070	251,029
Garbage fees	250,000	283,117	33,117	249,020
Fee in lieu of taxes	13,500	2,714	(10,786)	
Inspection fees	6,000	16,245	10,245	
Rent		8,500	8,500	
Total	<u>536,500</u>	<u>598,410</u>	<u>61,910</u>	<u>603,948</u>
Recreation and culture revenue				
Recreation and festival income	10,000	25,206	15,206	17,140
Recreation programs	6,000	5,972	(28)	17,231
Total	<u>16,000</u>	<u>31,178</u>	<u>15,178</u>	<u>34,371</u>
Miscellaneous revenues				
Interest earnings	26,000	21,923	(4,077)	31,308
Sale of surplus property and equipment	33,900		(33,900)	
Other revenue	35,000	83,834	48,834	34,143
Total	<u>94,900</u>	<u>105,757</u>	<u>10,857</u>	<u>65,451</u>
Total revenues	<u>\$ 2,532,500</u>	<u>\$ 2,831,449</u>	<u>\$ 298,949</u>	<u>\$ 2,500,893</u>

CITY OF CEDAR HILLS
GENERAL FUND
Statement Of Revenues, Expenditures, And Changes In
Fund Balance - Budget And Actual

For The Year Ended June 30, 2006

With Comparative Totals for
the Year Ended June 30, 2005

(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)	2005 Actual
Expenditures				
General government				
General government	\$ 249,065	\$ 235,618	\$ 13,447	\$ 221,151
Mayor/council	18,560	18,558	2	16,766
Administrative services	202,254	216,196	(13,942)	176,056
City recorder	115,388	109,807	5,581	109,735
Building and zoning	211,254	196,893	14,361	195,523
Public works	250,195	216,089	34,106	217,717
Highway and streets	238,000	223,541	14,459	236,503
Solid waste	251,400	281,835	(30,435)	239,388
Total	<u>1,536,116</u>	<u>1,498,537</u>	<u>37,579</u>	<u>1,412,839</u>
Public safety				
Crossing guards	11,225	8,398	2,827	8,635
Police department	280,500	281,689	(1,189)	249,416
Fire department	132,757	124,936	7,821	108,266
Total	<u>424,482</u>	<u>415,023</u>	<u>9,459</u>	<u>366,317</u>
Recreation and culture				
Library				14,983
Recreation	90,144	78,122	12,022	120,797
City celebrations	49,560	50,199	(639)	31,057
Other celebrations	10,250	9,012	1,238	7,945
Total	<u>149,954</u>	<u>137,333</u>	<u>12,621</u>	<u>174,782</u>
Debt service				
Principal	40,000	40,000		37,000
Interest	13,800	13,353	447	15,555
Total	<u>53,800</u>	<u>53,353</u>	<u>447</u>	<u>52,555</u>
Total expenditures	<u>2,164,352</u>	<u>2,104,246</u>	<u>60,106</u>	<u>2,006,493</u>
Excess of revenues over expenditures	<u>368,148</u>	<u>727,203</u>	<u>359,055</u>	<u>494,400</u>
Other financing sources (uses)				
Operating transfers in	15,000		(15,000)	15,955
Operating transfers out	<u>(489,942)</u>	<u>(489,942)</u>		<u>(267,987)</u>
Total other financing sources (uses)	<u>(474,942)</u>	<u>(489,942)</u>	<u>(15,000)</u>	<u>(252,032)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(106,794)</u>	<u>237,261</u>	<u>\$ 344,055</u>	<u>242,368</u>
Fund balance at beginning of year	<u>566,393</u>	<u>566,393</u>		<u>324,025</u>
Fund balance at end of year	<u>\$ 459,599</u>	<u>\$ 803,654</u>		<u>\$ 566,393</u>

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CAPITAL PROJECTS FUND

The capital projects fund is used to account for the financial resources to be used for the acquisition or construction of capital assets.

**CITY OF CEDAR HILLS
CAPITAL PROJECTS FUND**

Balance Sheet

June 30, 2006

With Comparative Totals for June 30, 2005

ASSETS

	2006	2005
Cash and cash equivalents	\$ 809,692	\$ 696,800
Restricted cash and cash equivalents		
Impact fees	4,214,314	3,847,256
Franchise fees	674,970	450,727
Debt reserve	157,563	
Construction fund	2,132,185	75,859
 Total assets	 <u>\$ 7,988,724</u>	 <u>\$ 5,070,642</u>

LIABILITIES AND FUND BALANCE

Liabilities		
Accounts payable	\$ 209,253	\$ 63,667
Total liabilities	<u>209,253</u>	<u>63,667</u>
 Fund Balance		
Reserved		
Restricted	6,504,062	3,923,095
Designated for capital assets	674,970	450,727
Unreserved	600,439	633,153
Total fund balance	<u>7,779,471</u>	<u>5,006,975</u>
 Total liabilities and fund balance	 <u>\$ 7,988,724</u>	 <u>\$ 5,070,642</u>

CITY OF CEDAR HILLS
CAPITAL PROJECTS FUND
Statement Of Revenues, Expenditures, And
Changes In Fund Balance - Budget And Actual
For The Year Ended June 30, 2006
With Comparative Totals for
the Year Ended June 20, 2005

	Budget	Actual	Variance Favorable (Unfavorable)	2005 Actual
Revenues				
Impact fees - parks development	\$ 243,380	\$ 208,288	\$ (35,092)	\$ 282,350
Impact fees - park land	196,940	244,572	47,632	414,468
Impact fees - recreation	352,600	301,140	(51,460)	406,927
Impact fees - public safety	98,255	84,651	(13,604)	120,902
Impact fees - streets	132,225	111,930	(20,295)	203,128
Interest earnings	70,000	220,455	150,455	101,247
Developer contributions				62,632
Total revenues	<u>1,093,400</u>	<u>1,171,036</u>	<u>77,636</u>	<u>1,591,654</u>
Expenditures				
General and administrative	70,000	65,040	4,960	
Capital facilities acquisitions	875,500	476,372	399,128	
Highways and streets	261,506	203,204	58,302	131,994
Parks and recreation	2,567,081	234,399	2,332,682	753,584
Water and sewer	1,480,000		1,480,000	
Debt service				
Principal	35,000	35,000		35,000
Interest	33,250	42,408	(9,158)	30,201
Total expenditures	<u>5,322,337</u>	<u>1,056,423</u>	<u>4,265,914</u>	<u>950,779</u>
Excess (deficiency) of revenues over expenditures	<u>(4,228,937)</u>	<u>114,613</u>	<u>(4,188,278)</u>	<u>640,875</u>
Other financing sources (uses)				
Proceeds from debt	2,075,500	2,325,000	249,500	
Operating transfers in	2,666,796	332,883	(2,333,913)	159,719
Operating transfers out	(619,153)		619,153	
Total other financing sources (uses)	<u>4,123,143</u>	<u>2,657,883</u>	<u>(1,465,260)</u>	<u>159,719</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(105,794)</u>	<u>2,772,496</u>	<u>\$ (5,653,538)</u>	<u>800,594</u>
Fund balance at beginning of year	<u>5,006,975</u>	<u>5,006,975</u>		<u>4,206,381</u>
Fund balance at end of year	<u>\$ 4,901,181</u>	<u>\$ 7,779,471</u>		<u>\$ 5,006,975</u>

PROPRIETARY FUNDS

The proprietary funds are used to account for the business-like activities of the City.

CITY OF CEDAR HILLS
SEWER AND WATER FUND
Statement of Net Assets
June 30, 2006
With Comparative Totals for June 30, 2005

ASSETS

	<u>2006</u>	<u>2005</u>
Current assets		
Cash and cash equivalents	\$ 235,026	\$ 371,028
Accounts receivable	169,967	143,292
Total current assets	<u>404,993</u>	<u>514,320</u>
Capital assets		
Water improvements	15,965,285	14,577,480
Sewer improvements	9,366,130	8,613,976
Less: accumulated depreciation	<u>(3,117,177)</u>	<u>(2,610,482)</u>
Net capital assets	<u>22,214,238</u>	<u>20,580,974</u>
Water stock	<u>3,119,511</u>	<u>3,119,511</u>
Other noncurrent assets		
Bond costs	212,463	70,293
Less: accumulated amortization	(17,377)	(10,460)
Restricted cash and cash equivalents	<u>1,323,700</u>	<u>793,664</u>
Total noncurrent assets	<u>1,518,786</u>	<u>853,497</u>
Total assets	<u><u>\$ 27,257,528</u></u>	<u><u>\$ 25,068,302</u></u>

**CITY OF CEDAR HILLS
SEWER AND WATER FUND
Statement of Net Assets**

June 30, 2006

With Comparative Totals for June 30, 2005

(Continued)

LIABILITIES

	<u>2006</u>	<u>2005</u>
Current liabilities		
Accounts payable	\$ 67,110	\$ 155,613
Accrued interest payable	80,743	24,101
Refundable deposits	1,018,559	895,009
Development agreements payable	516,079	637,361
Current portion of long-term debt	210,000	198,448
Total current liabilities	<u>1,892,491</u>	<u>1,910,532</u>
Noncurrent liabilities		
Notes and bonds payable	6,215,000	6,033,824
Less: current portion	(210,000)	(198,448)
Total noncurrent liabilities	<u>6,005,000</u>	<u>5,835,376</u>
Total liabilities	<u><u>\$ 7,897,491</u></u>	<u><u>\$ 7,745,908</u></u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 16,515,897	\$ 14,606,983
Restricted - capital assets	787,452	652,930
Unrestricted	2,056,688	2,062,481
Total net assets	<u><u>\$ 19,360,037</u></u>	<u><u>\$ 17,322,394</u></u>

CITY OF CEDAR HILLS
SEWER AND WATER FUND
Statement of Revenues, Expenses,
and Changes in Fund Net Assets - Budget and Actual
For the Year Ended June 30, 2006
With Comparative Totals for
the Year Ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)	2005 Actual
Operating revenues				
Water charges	\$ 899,500	\$ 1,047,223	\$ 147,723	\$ 808,817
Sewer charges	570,300	605,045	34,745	544,561
Utility setup fees	19,000	25,900	6,900	
Total operating revenues	1,488,800	1,678,168	189,368	1,353,378
Operating expenses				
Salaries, wages and employee benefits	326,150	336,294	(10,144)	287,780
Supplies and maintenance	605,000	113,806	491,194	44,898
Utilities and telephone	123,500	133,462	(9,962)	104,528
Professional and technical	11,560	18,924	(7,364)	34,591
Timpanogos Special Service District fees	216,000	226,427	(10,427)	169,764
Water purchases	81,288	73,079	8,209	28,871
Depreciation and amortization		513,611	(513,611)	470,674
Capital asset acquisitions	490,401		490,401	
Total operating expenses	1,853,899	1,415,603	438,296	1,141,106
Operating income (loss)	(365,099)	262,565	627,664	212,272
Non-operating income (expense)				
Interest income	9,000	54,318	45,318	14,452
Interest expense	(3,200)	(259,448)	(256,248)	(224,704)
Total non-operating income (expense)	5,800	(205,130)	(210,930)	(210,252)
Income (loss) before capital contributions and operating transfers	(359,299)	57,435	416,734	2,020
Capital contributions				
Impact fees	243,500	237,857	(5,643)	348,311
Developers		1,751,483	1,751,483	172,161
Grants		31,200	31,200	
Impact fees collected for Timpanogos Special Service District	485,000	461,280	(23,720)	634,880
Impact fees remitted to Timpanogos Special Service District	(550,000)	(443,920)	106,080	(634,880)
Total capital contributions	178,500	2,037,900	1,859,400	520,472
Operating transfers				
Transfers in	300,000		(300,000)	
Transfers out	(407,118)	(57,692)	349,426	(56,988)
Net operating transfers	(107,118)	(57,692)	49,426	(56,988)
Net income (loss)	(287,917)	2,037,643	\$ 2,325,560	465,504
Net assets at beginning of year	17,322,394	17,322,394		16,856,890
Net assets at end of year	\$ 17,034,477	\$ 19,360,037		\$ 17,322,394

BUDGET NUMBERS ARE REPORTED ON A CASH BASIS.

CITY OF CEDAR HILLS
GOLF COURSE FUND
Statement of Net Assets
June 30, 2006
With Comparative Totals for June 30, 2005

ASSETS

	2006	2005
Current assets		
Accounts receivable		\$ 661
Total current assets		661
Capital assets		
Land	\$ 3,379,399	3,379,399
Golf course improvements	8,124,157	8,124,156
Less: accumulated depreciation	(684,607)	(447,285)
Net property and equipment	10,818,949	11,056,270
Other noncurrent assets		
Bond costs	118,827	
Less: accumulated amortization	(2,732)	
Restricted cash and cash equivalents		500,394
Total noncurrent assets	116,095	500,394
Total assets	\$ 10,935,044	\$ 11,557,325

LIABILITIES

Current liabilities		
Outstanding checks in excess of deposits	\$ 478,124	\$ 348,027
Accrued interest payable	165,926	27,904
Accounts payable	637	21,331
Current portion of long-term debt	188,354	373,354
Total current liabilities	833,041	770,616
Noncurrent liabilities		
Notes payable	310,595	416,481
Bonds payable	6,250,000	6,427,000
Less: current portion	(188,354)	(373,354)
Total noncurrent liabilities	6,372,241	6,470,127
Total liabilities	\$ 7,205,282	\$ 7,240,743

NET ASSETS

Invested in capital assets, net of related debt	\$ 4,374,449	\$ 4,713,183
Restricted - debt service		500,394
Unreserved	(644,687)	(896,995)
Total net assets	\$ 3,729,762	\$ 4,316,582

CITY OF CEDAR HILLS
GOLF COURSE FUND
Statement of Revenues, Expenses,
and Changes in Fund Net Assets - Budget And Actual
For the Year Ended June 30, 2006
With Comparative Totals for
the Year Ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)	2005 Actual
Operating revenues				
Golf revenue	\$ 578,419	\$ 564,523	\$ (13,896)	\$ 596,570
Other operating revenues	52,259	75,102	22,843	58,231
Total operating revenues	<u>630,678</u>	<u>639,625</u>	<u>8,947</u>	<u>654,801</u>
Operating expenses				
Salaries, wages and employee benefits	313,495	311,481	2,014	261,284
General and administrative	80,555	53,841	26,714	101,124
Supplies and maintenance	193,728	175,324	18,404	241,643
Lease expense	196,490	72,160	124,330	73,741
Depreciation and amortization		240,054	(240,054)	236,843
Total operating expenses	<u>784,268</u>	<u>852,860</u>	<u>(68,592)</u>	<u>914,635</u>
Operating loss	<u>(153,590)</u>	<u>(213,235)</u>	<u>(59,645)</u>	<u>(259,834)</u>
Non-operating income (expense)				
Interest income	15,000	6,489	(8,511)	15,998
Interest expense	(570,701)	(380,074)	190,627	(348,896)
Total non-operating income (expense)	<u>(555,701)</u>	<u>(373,585)</u>	<u>182,116</u>	<u>(332,898)</u>
Loss before capital contributions and operating transfers	<u>(709,291)</u>	<u>(586,820)</u>	<u>122,471</u>	<u>(592,732)</u>
Operating transfer in				60,000
Net income (loss)	(709,291)	(586,820)	<u>\$ 122,471</u>	(532,732)
Net assets at beginning of year	<u>4,316,582</u>	<u>4,316,582</u>		<u>4,849,314</u>
Net assets at end of year	<u>\$ 3,607,291</u>	<u>\$ 3,729,762</u>		<u>\$ 4,316,582</u>

BUDGET NUMBERS ARE REPORTED ON A CASH BASIS.

CITY OF CEDAR HILLS
MOTOR POOL FUND
Statement of Net Assets

June 30, 2006

With Comparative Totals for June 30, 2005

ASSETS

	2006	2005
Current assets		
Cash and cash equivalents	\$ 12,339	
Total current assets	<u>12,339</u>	
Capital assets		
Vehicles	302,081	\$ 173,788
Less: accumulated depreciation	(61,470)	(56,931)
Net capital assets	<u>240,611</u>	<u>116,857</u>
Total assets	<u><u>\$ 252,950</u></u>	<u><u>\$ 116,857</u></u>

LIABILITIES

Current liabilities		
Accounts payable	\$ 613	
Current portion of long-term debt		\$ 3,686
Total current liabilities	<u>613</u>	<u>3,686</u>
Noncurrent liabilities		
Notes payable		7,812
Less: current portion		(3,686)
Total noncurrent liabilities		<u>4,126</u>
Total liabilities	<u><u>\$ 613</u></u>	<u><u>\$ 7,812</u></u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 240,611	\$ 109,045
Unrestricted	11,726	
Total net assets	<u><u>\$ 252,337</u></u>	<u><u>\$ 109,045</u></u>

CITY OF CEDAR HILLS
MOTOR POOL FUND
Statement of Revenues, Expenses,
and Changes in Fund Assets - Budget and Actual
For the Year Ended June 30, 2006
With Comparative Totals for
the Year Ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)	2005 Actual
Operating revenue, vehicles	\$ 214,751	\$ 214,751		\$ 89,301
Operating expenses				
Vehicle maintenance	48,051	35,437	\$ 12,614	29,921
Capital asset acquisition	166,700			
Depreciation		38,392	(38,392)	27,591
Total operating expenses	<u>214,751</u>	<u>73,829</u>	<u>(25,778)</u>	<u>57,512</u>
Operating income		<u>140,922</u>	<u>(25,778)</u>	<u>31,789</u>
Non-operating income (expense)				
Interest expense		(155)	(155)	(254)
Gain on sale of capital assets		2,525	2,525	2,928
Total non-operating income (expense)		<u>2,370</u>	<u>2,370</u>	<u>2,674</u>
Net income		143,292	<u>\$ (23,408)</u>	34,463
Net assets at beginning of year	<u>109,045</u>	<u>109,045</u>		<u>74,582</u>
Net assets at end of year	<u>\$ 109,045</u>	<u>\$ 252,337</u>		<u>\$ 109,045</u>

BUDGET NUMBERS ARE REPORTED ON A CASH BASIS.

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ADDITIONAL SCHEDULES

These schedules are included to provide additional information for analysis.

CITY OF CEDAR HILLS
Schedule of Audit Findings
June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City.
2. There were three reportable conditions, as described in findings 2006-1, 2006-2, and 2006-3 relating to the audit of the financial statements as reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. There were no instances of noncompliance required to be reported under *Government Auditing Standards*.

B. FINDINGS – FINANCIAL AUDIT CURRENT YEAR

2006-1 Finding – Purchase approval process

During the audit we found instances where aspects of the purchase approval process are not being followed. The process requires invoices for purchases over \$500 have two approval signatures. Invoices meeting the \$500 requirement at the golf course were approved with only one signature. There was also a check that had only one signature.

Recommendation

We recommend management train the appropriate personnel on the purchase approval process and monitor it closely to ensure that the process is being followed.

City's Response

We agree with the finding and will implement the recommendation.

2006-2 Finding – Shared expense allocation

During the audit we noted that there was not a consistent methodology on allocating certain shared expenses among funds.

Recommendation

The City should come up with a reasonable methodology for allocating shared expenses between funds, such as a percentage of the postage being allocated to the water and sewer fund based on actual or projected costs.

City's Response

We agree with the finding and will implement the recommendation.

2006-3 Finding – Golf course oversight

During the audit we noted a lack of oversight pertaining to the golf course accounting activity.

Recommendation

We recommend the City increase oversight by performing a detailed review of the sales report, reconciling the deposits to the sales report, and ensuring that management has adequate controls in place. The City should communicate the internal controls and oversight functions with the contractual management company of the golf course.

City's Reponse

We agree with the finding and are currently increasing our involvement in the golf course by having one of our personnel oversee the activities of the golf course.

2006-4 Finding – Road Assessment

The modified approach to reporting the road infrastructure requires a condition assessment be performed every three years. The next assessment will need to be performed in fiscal year 2007 to meet the reporting requirements.

C. CURRENT YEAR STATUS OF PRIOR YEAR FINDINGS

2005-1 Finding – Recording of accounting transactions

During the audit we found that some accounting transactions were not being recorded properly or consistent with generally accepted accounting principles. For example, the detail accounts payable and utility billing ledgers were not reconciled to the general ledger reports, some engineering inspection fees were not recorded in the proper period and some expenses were being posted to income accounts. These errors result in inaccurate financial information used by the Council and management.

Status

This finding has been corrected.

2005-2 Finding – Classification of expenses

During the audit we noted some expenses were being posted to the contingency account rather than the proper expenditure account. Items that were not included in the budget for the expenditure category were classified as contingency to offset the contingency budget item.

Status

This finding has been corrected.

CITY OF CEDAR HILLS
General Fund Property Tax Levies and Collections

<u>Year End 12/31</u>	<u>Total Taxes Assessed</u>	<u>Current Collections</u>	<u>Delinquent Collections</u>	<u>Total Collected</u>	<u>Percentage of Current Collections to Total Taxes Assessed</u>	<u>Percentage of Total Collections to Total Taxes Assessed</u>
2005	\$ 452,739	\$ 406,918	\$ 55,237	\$ 462,155	89.9%	102.1%
2004	414,394	360,112	62,539	422,651	86.9%	102.0%
2003	411,891	365,557	57,270	422,827	88.8%	102.7%
2002	391,708	322,767	23,480	346,247	82.4%	88.4%
2001	218,579	196,227	21,488	217,715	89.8%	99.6%
2000	175,302	150,409	21,975	172,384	85.8%	98.3%

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ADDITIONAL AUDITORS' REPORTS

These additional reports are required by *Government Auditing Standards* and the Utah State Auditor's Office, respectively.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor
and Members of the City Council
City of Cedar Hills

We have audited the financial statements of the City of Cedar Hills as of and for the year ended June 30, 2006 and have issued our report thereon dated November 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Cedar Hill's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Audit Findings as findings 2006-1, 2006-2, and 2006-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions referred to above are material weaknesses.

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COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Cedar Hill's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

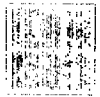
This report is intended solely for the information and use of the Mayor and City Council, management, and the Utah State Auditor's office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

November 14, 2006



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UTAH STATE COMPLIANCE REPORT BASED ON THE REQUIREMENTS, SPECIAL TESTS, AND PROVISIONS REQUIRED BY THE STATE OF UTAH'S LEGAL COMPLIANCE AUDIT GUIDE

To the Honorable Mayor
and Members of the City Council
City of Cedar Hills

We have audited the financial statements of the City of Cedar Hills for the year ended June 30, 2006, and have issued our report thereon dated November 14, 2006. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or disallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major state assistance program from the State of Utah:

Class "C" Road (Department of Transportation)
Liquor Law Enforcement Funds (Utah State Tax Commission)

The City did not receive any non-major state grants during the year.

Our audit also included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other General Compliance Issues
Uniform Building Code Standards
Impact Fees
Asset Forfeiture

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The management of the City of Cedar Hills is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed some immaterial instances of noncompliance with the requirements referred to above which is described below. We considered this instance of noncompliance in forming our opinion on compliance, which is expressed in the second to last paragraph of this report.

A. CURRENT YEAR IMMATERIAL INSTANCES OF NONCOMPLIANCE

Finding

State law requires officers and employees not to incur expenditures in excess of the total appropriated budget. There were a few departments that expenditures exceeded the budget.

Recommendation

We recommend the City monitor the budget and amend it as necessary to comply with state law. All departments should closely monitor their budgets throughout the year.

City's Response

We agree with the finding and will implement the recommendation.

Finding

State law requires a 1% surcharge to be charged on all building permits issued and that 80% of the surcharge collected be remitted to the Division of Occupational and Professional Licensing. The 2005 fourth quarter calculation was done incorrectly and consequently the wrong amount was remitted

Recommendation

We recommend the City remit the remaining fourth quarter surcharge, to be in compliance with state law. We also suggest the City have someone review the reports prior to submission, verifying the accuracy.

City's Response

We agree with the finding and will implement the recommendation

B. CURRENT STATUS OF PRIOR YEAR IMMATERIAL INSTANCES OF NONCOMPLIANCE

Finding

Actual expenditures exceeded the budgeted expenditures.

Status

See current year findings.

In our opinion, the City complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major state assistance program for the year ended June 30, 2006.

This report is intended for the information of the Mayor and City Council, management, and the Utah State Auditor's office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward + Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

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November 14, 2006